

Message Text

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11

ACTION NEA-12

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INR-10 NSAE-00 RSC-01 TRSE-00 XMB-01 OPIC-01 SPC-03

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FM AMCONSUL KARACHI

TO SECSTATE WASHDC 7746

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SUBJECT: MINFINANCE MUBASHIR HASAN MEETS WITH HEADS FOREIGN BANKS

REF: A. ISLAMABAD 0004 B. KARACHI 2544

BEGIN SUMMARY. DURING MEETING WITH FOREIGN BANKS
JANUARY 2 MINFIN MUBASHIR HASAN ANES STATE BANK GOV.
GHULAM ISHAQ KHAN UTTERED WARNINGS CONCERNING INCREASED
DEPOSITS IN FOREIGN BANK BRANCHES AFTER RATIONALIZATION
LOCAL BANKS AND STATED NO ADDITIONAL FOREIGN BANK BRANCHES
WOULD BE ALLOWED TO OPEN. APPEARS FROM MEETING FOREIGN
BANK BRANCHES WILL HAVE TO FULFILL 5 PERCENT LOCAL RESERVE
REQUIREMENT FROM WHICH THEY HAVE ENJOYED EXCEPTION UNTIL
NOW. END SUMMARY.

1. MINFIN MUBASHIR HASAN, GOVERNOR STATE BANK
GHULAM ISHAQ KHAN, AND THEIR SENIOR STAFF MET WITH HEADS
ALL FOREIGN BANKS WITH BRANCHES IN PAKISTAN, ON JAN. 2.
DURING HOUR-ONG MEETING MUBASHIR STATED FOREIGN BANKS
WOULD NOT BE ALLOWED OPEN ANY MORE BRANCHES IN PAKISTAN
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IN FUTURE. MUBASHIR ALSO WARNED FOREIGN BANKS AGAINST ACCEPTING

"BLACK" FUNDS WITHDRAWN FROM FKQAL BANK* FOLLOWING NATIONALIZATION ON JANUARY 1, AND STATEYFOREIGN BANKS WILL HAVE TO CONFORM FUXZY WITH PAKISTAN'S LAALGM HEADS FOREIGN BANKS IN TURN ASSURED MUBASHIR AND GOVERNOR THEIR INTENTIONS NOT TO TAKE ADVANTAGE OF PRESENT SITUATION AND PERMIT ABNORMAL TRANSFER OF FUNDS, PARTICUWRLY THOSE FROM ACCOUNTS IN FICTITIOUS NAMES PREVIOUSLY HELD IN NEWLY NATIONALIZED BANKS.

2. COMMENT: US BRANCH BANK HEADS WHO ATTENDED MEETING CAME AWAY WITH CONVICTION THAT EXCEPTION TO LOCAL RESERVE CAPITAL REQUIJMENTS FOR FOREIGN BANK BRANCH*S (SESOREF. B ANJYPREVIOUS) WOULD NOW*DEFINITELY BE REVOKED, AND THAT 5 PERCENT OF TOTAL DEMAND AND TIME LIABILITIES WOULD SOON,

IN ALL PROBABILITY, HAVE TO BE DEPOSITED WITH STATE BANK IN PAKISTAN RATHER THAN PAKISTAN NATIONAL BANK IN NEW YORK. WHETHER RESERVES WILL HAVE TO BE CONVERTED INTO PAK SECURITIES OR NOT REMAINS, IN THEIR BELIEF, OPEN TO NEGOTIATION WITH STATE BANK GOVERNOR, WITH ONE SOLUTION POSSIBLY BEING CONVERSION FORARGN RESERVE SECURITIES INTO FOREIGN CURRENCY BONDS WHICH MAY BE ISSUED BY NEW NATIONAL DEVELOPMENT FINANCE CORPORATION OF PAKISTAN. ONE US BANKER COMMENTED US BANKS HAD ALWAYS BEEN CAREFUL NOT TO TAKE IN "BLACK" MONEY UNDER FICTITIOUS NAMES, CONTRARY TO PRACTICE LOCAL BANKS, AND THAT U.S. BANKS WOULD DO THEIR BEST TO AVOID SUCH NEW MONEY IN FUTURE, ALTHOUGH VERY HARD TO SCREEN OUT COMPLETELY ANY SUCH INFLOW. US BANKERS ALSO OBSERVED MUBASHIR SEEMED EAGER TO IMPLY THAT CONFIDENTIALITY OF DEPOSITS WOULD BE MAINTAINED, AND HENCE ACCOUNTS IN FICTITIOUS OR MULTIPLE NAMES WOULD NOT BE INVESTIGATED.

3. IN CONGEN'S VIEW WILL BE MOST DIFFICULT FOR FOREIGN BANKS TO SCREEN OUT INFLOW OF FUNDS FROM NATIONALIZED BANKS FOLLOWING NEAR PANIC AMONG BUSINESSMEN AND OTHERS WHO HAD DEPOSITED "BLACK" OR "GRAY" MONEY, WHICH THEY COULD NOT LEGALLY ACCOUNT FOR, UNDER FICTITIOUS NAMES AND WHO HAVE NOW IN MANY INSPNCES WITHDRAWN MONEY FROM FEAR OF STRICTER SCRUTINY OVER BANK DEPOSITS FOLLOWING NATIONAL LIMITED OFFICIAL USE

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ALIWTION. MUBASHIR'S ASSURANCES REGARDING CONFIDENTIALITY CLEARLY DESIGNED TO STAUNCH WITHDRAWALS SUCH DEPOSITS.

4. OVERALL, US BANKERS, FOLLOWING JAN. 1 NATIONALIZATION BOMBHELL, CONSIDER THEMSELVES FORTUNATE NOT TO HAVE BEEN MORE SERIOUSLY AFFECTED BY NEW LAWS. THEIR CONDITION, HOWEVER, IS ONLY RELATIVELY FAVORABLE, SINCE, AS HEAD

AMEX BANK OBSERVED IN LATE NOVEMBER, THE ONLY DEVELOPMENT WHICH COULD POSSIBLY BE MORE UNFAVORABLE TO FOREIGN BANK BRANCHES THAN ENFORCEMENT OF LOCAL RESERVE CAPITAL REQUIREMENT WOULD BE OUTRIGHT NATIONALIZATION. FOREIGN NATIONALIZATION HAS BEEN AVOIDED, BUT IN ORDER AVERT OUT-cries FROM PAK BANKING COMMUNITY REGARDING FAVORITISM TO NON-NATIONALIZED FOREIGN FEW, THE FOREIGN BANKS ARE NOW PREPARING TO NEGOTIATE ON FULFILLMENT LOCAL RESERVE REQUIREMENTS. TIGER

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